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HEFA
MONITOR

WINTER 1990 MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY VOL. 3, NO. 1

Governor Signs HEFA Legislation

The Deficit Reduction Package signed into law by Governor Dukakis last month contained a provision which widens the scope of authority for HEFA. The measure gives HEFA the authorization, pending IRS approval, to issue tax-exempt securities to raise operating capital for hospitals and nursing homes. This new mandate is an attempt to provide further assistance to Massachusetts health care institutions in the face of increased financial pressure and lower operating margins.

HEFA will seek a ruling from the Internal Revenue Service before issuing its first working capital note. Since the federal tax code has a provision which limits the life of tax-exempt financing to 120% of the useful life of the project being financed, a clarification must be made establishing the useful life of working capital, according to HEFA counsel Donald Winter of the law firm, Palmer & Dodge. There have been no tax-exempt working capital programs established for non-profits since the Tax Reform Act of 1986 anywhere in the country. ■

POOL FUNDS AVAILABLE

Funds are still available from four of the Authority's pools on both a variable and fixed-rate basis. The variable-rate funds are in the 7.2% to 8.6% range, adusted quarterly; fixed rate pools range from 6.05% to 7.2%. Maturities are up to 20 years. For information, call (617) 737-8377.

Gail Snowden

Gail Snowden Appointed to 7-year Board Term

Gail Snowden has been appointed by Governor Dukakis to serve a seven-year term as a member of the board of HEFA. A resident of Newton, Ms. Snowden is Senior Credit Officer and Director of the Special Industries Department of Bank of Boston, where she has served in various capacities for the last 20 years. She has been active with a number of civic and professional organizations, including the National Association of Urban Bankers, for which she has served as President and as Chairman of its Advisory Committee; the Organization for a New Equality, on whose board she has served; and Simmons College Graduate School of Management, for which she has served as Secretary. Ms. Snowden received her bachelor's degree from Radcliffe College and an M.B.A. from Simmons College's Graduate School of Management. ■

HEFA Board Elects Officers

C. Vincent Vappi has been elected Chairman of HEFA for the coming year. An active member of the authority for 20 years, he served as Vice Chairman from 1975 to 1984. Mr. Vappi is Chairman and Chief Executive Officer of Vappi & Company, general building contractors. He is also a Trustee of the New England Deaconess Hospital and a Director of the Boston Company, the John Hancock Mutual Life Insurance Company, and Tech/Ops, Inc.

Robert R. Fanning, Jr. has been reelected to the office of Vice Chairman, a post he has held since 1987. Mr. Fanning is President and Chief Executive Officer of Beverly Hospital and its parent corporation, Northeast Health Systems, Inc. He also serves as Chairman of the Massachusetts Hospital Association Board of Trustees and as a member of its Executive Committee.

John R. Smith has been reelected Secretary, a post he has held since 1984. Mr. Smith is Financial Vice President and Treasurer of Boston College, Treasurer and a Director of the Massachusetts Education Loan Authority, and a Director of the Massachusetts Higher Education Assistance Corp., the Advest Advantage Funds, and the International Marketing Institute, Inc. Mr. Smith has been with HEFA since 1980. ■

Experts Make Predictions for 1990 Interest Rates

Ben Wolfe, Vice President Goldman, Sachs & Co.: "Short-term rates are expected to fall farther, giving the yield curve a more traditional slope, due in substantial measure to easing Federal Reserve policy. Long-term rates should remain relatively stable to slightly higher."

John Gillespie, Vice President Morgan Stanley & Co.: "Our economists expect relatively stable rates over the next six months with a slight rising trend because of increased inflationary fears related to stronger than expected economic indicators which have reduced expectations of a Federal Reserve easing."

Frank Taylor, Director and Manager Health Care and Higher Education Group Prudential-Bache Capital Funding: "We expect long Treasuries to rise to 8 1/2 % over the next six weeks. Over the next six to nine months, however, we expect there will be a gradual decline in rates which will level off at 7.5% by the end of the calendar year. The municipal market will follow this same basic pattern." ■

Arbitrage Rebate Relief Bill Enacted

President Bush recently signed legislation which significantly amends the 1986 Tax Act arbitrage rebate regulations, which many borrowers considered restrictive and cumbersome. Under the new statute, borrowers are exempt from the arbitrage rebate requirement if bond proceeds are expended according to the following schedule: 10% within six months, 45% within one year, 75% within 18 months, 95% within two years, and 100% by the end of three years. This applies only to the portion of an issue used for construction projects.

A borrower failing to comply with this schedule has two options. They could repay the arbitrage or pay a semi-annual penalty calculated at the rate of 1.5% of the difference between the unexpended proceeds and the required expenditure amount. In certain circumstances, the rebate option may be preferable. However, while the arbitrage rebate rules have been relaxed, borrowers should be aware that they are still subject to compliance for all bonds issued since 1986. The Authority will produce information on how best to take advantage of the new provision in the coming months. ■

Monitor is the quarterly publication of the Massachusetts Health and Educational Facilities Authority.

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HEFA Financings: July 1989 through December 1989

INDIVIDUAL BOND ISSUES

Institution	Location	Series	Amount	Sale Date	Term	Interest Rate
Beth Israel Hospital	Boston	E	$81,570,000	07/27/89	25 years, fixed	5.80% - 7.00%
Brigham and Women's Hospital	Boston	C	37,000,000	08/10/89	21 years, fixed	6.00% - 7.125%
Learning Center for Deaf Children	Framingham	A	4,250,000	09/28/89	25 years, fixed	9.25%
Wheaton College	Norton	B	15,700,000	09/12/89	30 years, fixed	6.10% - 7.25%
Harvard University	Cambridge	L	71,140,000	10/04/89	35 years, variable	N/A
Beverly Hospital	Beverly	D	36,815,000	09/27/89	30 years, fixed	6.15% - 7.30%
Northeastern University	Boston	C	25,975,000	10/11/89	17 years, fixed	5.90% - 7.10%
Eastern Middlesex Mental Health Association	Wakefield	A	695,000	11/09/89	15 years, fixed	9.60%
Baystate Medical Center	Springfield	C	112,330,000	12/01/89	30 years, fixed	6.20% - 7.50%

CAPITAL ASSET PROGRAM BOND ISSUES

Series	Amount	Sale Date	Term	Loan Rate
Capital Asset Program, Series G-2	$33,300,000	08/11/89	20 years, fixed	5.90% - 7.20%

Interest Rates Continue Decline

Long-term interest rates are extremely attractive and have been near historically low levels. Recent HEFA bond issues have achieved long-term interest rates ranging from 7.3% for insured issues rated "AAA" to 8.0% for "BBB" rated issues. Several institutions have recently undertaken refinancings to lower their interest costs.

Baystate Medical Center, for example, refinanced its 1983 issue and expects savings of about $41.6 million over the life of the new bonds. Similarly, Emerson Hospital's interest rate dropped by 1.5% with the completion of its financing in January. Other institutions, most notably Simmons College, New England Medical Center, Childrens Hospital and the Lahey Clinic, converted floating rate debt to fixed rate to lock in attractive long-term rates.

Although there is not a complete consensus among economists regarding the future of the economy, most experts expect the near-term interest rate environment to be stable to moderately improving. Several factors support this outlook:

- Further slowing in economic growth;
- Continued but gradual easing of short term rates by the Federal Reserve Board;
- Return of a normal "yield curve" with shorter term interest rates improving, thereby lowering overall borrowing costs.

Unfortunately, the investor climate for hospital revenue bonds will probably continue to be clouded for the foreseeable future by concerns about the strains affecting health care in general, as well as those specific to the Commonwealth, such as Medicaid financing, the recent Choate-Symmes default, and the state budget impasse. Notwithstanding these concerns, finance officers across the Commonwealth see opportunities in the recently favorable borrowing environment. ■

RECENT FINANCINGS

Simmons College

Simmons College joined the ranks of several other Massachusetts colleges that have taken advantage of the unusually low long-term rates and refinanced debt drawn down in 1987 to build a sports complex. By refinancing, Simmons will convert from a variable rate to a fixed rate and lock in at 7.5%. The bonds sold in a competitive sale to First Chicago Capital Markets Inc. who offered the most aggressive terms among seven bids representing a dozen underwriters.

The sports complex, completed last summer, is located on Simmons' Residence Campus in Boston's Back Bay. It contains a competition sized swimming pool, a gymnasium, racquet courts, a rowing tank, a dance studio, weight area, running track and other sports facilities.

Eastern Middlesex Mental Health Association, Inc.

The Authority recently closed on two loans totalling $800,000 for the Eastern Middlesex Mental Health Association, Inc. (EMMHS). EMMHS will acquire and renovate three residential properties in Stoneham, North Reading and Wakefield to serve clients with various types of disabilities. A total of $695,000 was issued through a private placement with Security Pacific Merchant Bank secured by residential mortgages and pledge of state contracts. The remaining $105,000, secured by a letter of credit, was issued through a HEFA pool. Announcing the transaction, HEFA Executive Director Edward M. Murphy commented, "This dual approach enables us to finance small providers up to 100% based on the pledge of state contract revenues as well as more traditional sources of equity. Small- to mid-sized non-profits have generally shied away from this type of financing due to the fee structures, complexity of the process and the protracted period of the transaction. Through the Eastern Middlesex deal we have overcome those obstacles and proven that HEFA can deliver 100% financing in a timely manner with an economical and standardized fee structure."

Emerson Hospital

Emerson Hospital commenced a major debt restructuring, renovation and expansion program in January with the sale of $36,500,000 revenue bonds through the Authority. The issue was structured with one maturity and level debt service through 2017. It was exceptionally well received by the capital markets and was underwritten by Shearson Lehman Hutton Inc. and The First Boston Corporation.

In addition to debt restructuring, bond proceeds will also be used for the construction of a parking garage and the acquisition and installation of furnishings, fixtures and equipment for the Hospital. The five-level garage with 465 parking spaces is expected to open in June 1990.

QUESTIONS? Call (617) 737-8377

Financing Options:
Edward M. Murphy
Martin L. Rainford
John C. Rumely
Patricia M. Moran
Juliette E. Fay

Acounting/Investment:
Steven W. Dansby

Legal:
Martin L. Rainford

New Investment Banking Policy Expands Options

HEFA's board has adopted a new policy that significantly expands the investment banking alternatives available to non-profit institutions. After a rigorous evaluation process, HEFA approved a total of 19 financial institutions to provide investment banking and underwriting services on HEFA bond issues. Institutions wishing to borrow through the Authority can choose from among the 19 firms which are grouped into three categories.

HEFA Executive Director Edward M. Murphy said that greater flexibility was warranted because "the non-profit institutions HEFA serves have become very sophisticated about their financial options. At the same time, investment banking has become more competitive and we want to take advantage of that competition."

HEFA will work with any non-profit to assemble a financing team tailored to the needs of the borrower. Information on any of the 19 approved investment banking firms is available from the Authority.

The 19 firms approved by HEFA are as follows:

LOAN RATES

Capital Asset Program	Effective Date	Loan Rate
Series A	01/01/90	6.00%
Series B/C	01/02/90	7.35%
Series D	01/02/90	8.00%
Series E	01/02/90	8.60%*
Series F	01/08/90	5.785%
Series G-1	02/01/90	6.30%

** Credit facility issued by Barclays Bank will be replaced by First Chicago and Sanwa. This will reduce loan rate to 7.25%. Change expected in late February.*

Senior Managers
Goldman, Sachs & Co.
Merrill Lynch Capital Markets
Shearson Lehman Hutton Inc.
Morgan Stanley & Co. Inc.
Prudential-Bache Capital Funding
The First Boston Corporation

Bank Affiliates
(Nov. 15, 1989-Nov. 15, 1990)
First Chicago Capital Markets, Inc.
J.P. Morgan Securities, Inc.
Bank of Boston
BNE Capital Markets, Inc.
Shawmut Bank, N.A.
State Street Bank and Trust Company

Co-Managers
(Nov. 15, 1989-Nov. 15, 1991)
Smith Barney, Harris Upham & Co., Inc.
Dean Witter Capital Markets
Kidder, Peabody & Co., Inc.
M.R. Beal & Company
First Albany Corporation
Tucker, Anthony & R.L. Day, Inc.
Cain Brothers, Shattuck & Company

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MONITOR

SPRING 1990 MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY VOL. 3, NO. 2

(Left to right): Michael D. Blaszyk, Executive Vice President-Corporate Services; J. Scott Abercrombie, Jr., M.D., President, University Hospital; and HEFA Executive Director Ned Murphy view the Official Statement.

HEFA Refinancing to Save University Hospital $32 Million

University Hospital, a principal teaching hospital affiliated with Boston University School of Medicine, has completed a major refinancing package that will save the Hospital approximately $32 million over the 30-year term of the new bond issue. The $88,195,000 financing will restructure debt incurred by the hospital in 1984 to construct the Atrium Pavilion, an 8-story medical/surgical facility. The Hospital took advantage of a drop of two percentage points with this refinancing compared with its 1984 Series B bond issue. "This refinancing is part of our program to create a capital structure that will support excellence in clinical care and research at University Hospital and Boston University School of Medicine," commented J. Scott Abercrombie, Jr., M.D., the president of University Hospital.

Moody's and Standard & Poor's gave University Hospital an "A" rating due to the financial and operational turnaround achieved by the hospital over the last 18 months. According to Moody's, the operations review "resulted in a signifi-

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Financing Sports Facilities: A Tale of Three Schools

Athletic facilities were considered only a few years ago to be the concerns of larger schools with intercollegiate programs. Today, the intramural sports program, as well as facilities for exercise and recreation, are widely considered by admission departments as necessary stops on the campus tour. Recently, three HEFA clients, Wheaton College, Simmons College and Suffolk University, went to the capital markets to obtain financing for athletic facilities. Their respective paths to a successful financing reflects in part the diversity of the three institutions.

Wheaton, located in the picturesque town of Norton, approached the Authority to borrow $15,700,000 to replace its existing gymnasium and pool as part of the transition to coeducation, which began in 1988. The college's 1920s vintage facility was not built for coeducational use, nor was its capacity sufficient for the increased utilization envisioned with men on campus. In September 1989, the college broke ground on a 95,000 square foot athletic facility, which includes a field house, a gymnasium, an entrance lobby, athletic offices and locker rooms.

Simmons, a 91-year-old Boston institution noted for its professional and business programs for women, has remained staunchly committed to its single-sex undergraduate program (though its graduate programs admit

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Sports

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men). As part of its effort to remain competitive with larger schools as well as schools with intramural sports programs, Simmons constructed a 58,000 square foot sports and fitness center on a relatively small site strategically located on the college's residential campus on the Fenway.

With Suffolk, it was not a question of coeducation, as the university has admitted women since 1906. Rather, the university lacked the room to build, given the campus is virtually surrounded by state government buildings on Beacon Hill. The building that is presently near completion is an innovative design that successfully incorporates a modern multi-use facility built within a building that meets the strict architectural guidelines of the Beacon Hill historic district. While the university had an intramural sports program prior to construction of this building, it was housed in borrowed facilities elsewhere in the crowded neighborhoods of downtown Boston.

The methods by which these three institutions financed their facilities vary as greatly as these institutions differ from each other. Wheaton made the decision to obtain bond insurance, and two bids were secured and compared by HEFA staff and outside advisors. The "Aaa" rated bonds were offered at competitive sale, with the winning bidder, First Chicago Capital Markets, beating out a dozen other competitors.

Suffolk proceeded to finance on its own credit rating and to borrow through a negotiated public offering; therefore, an underwriter, State Street Bank and Trust, was brought into the process at the outset. The finance team undertook a vigorous round of presentations, first to the rating agencies and later to potential institutional investors. The result was a healthy reception by the market, where virtually every maturity was oversubscribed.

Simmons, whose credit was rated "A" by both major rating agencies, chose to pursue bond insurance as well as a financing on the college's own rating. This financing procedure, known as *dual tracking*, relies on a close examination by the Authority's financial advisors immediately before sale as to whether the insurance premium is cost effective. This call is a function of the market and the relative trading values of "Aaa" and "A" securities. In Simmons' case the verdict was to proceed without insurance, utilizing a competitive sale. Seven bidders were attracted, and again First Chicago Capital Markets arrived with the lowest bid.

There are several methods of financing athletic facilities. A facility might be financed through special activity fees, although such a fee, unless obligatory, would probably be perceived as a lesser credit than the institution's general obligation, and accordingly, would sell at a higher rate in the bond market. These three colleges, however, made the most of their credit by issuing bonds that were direct obligations of the institution. They were backed by a pledge of tuition and revenues and as a result were well received by the capital markets. ■

HEFA's Ned Murphy and Suffolk University's Vice President and Treasurer, Francis X. Flannery, examine a model of the new sports facility.

University Hospital

continued from page 1

cant improvement in financial performance." Standard & Poor's noted, "The hospital hired a new chief financial officer, significantly reduced expenses and length of stay and greatly improved operations in general." The ratings increased to "AAA" with the acquisition of bond insurance from Municipal Bond Investors Assurance Corporation.

"We consider the "A" ratings to be indicators that our efforts were successful," stated Michael Blaszyk, University Hospital's Executive Vice President and Chief Financial Officer. He added, "This is a significant accomplishment when one considers that it was achieved in a fiscally troubled state and within an equally constrained health-care system." ■

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Fundraising vs. Tax-Exempt Debt

Many of the institutions that HEFA serves embark on a financing with the intention of using the project as a fundraising goal. While many financial officers acknowledge that financing a construction project with the proceeds of a tax-exempt bond issue virtually insures that an institution has secured the lowest cost of capital, they still intend to raise at least a portion of the project from donations. The reasons are many, but the ones we hear most often include:

- nothing quite motivates a donor so much as a "bricks and mortar" project;
- a college might use a construction project as an occasion to seek endowment funds;
- a hospital might use a fundraising campaign to secure its equity requirement as part of the Determination of Need approval.

While all of these motivations are sound, they invite a legitimate concern from bond counsel: Is the institution thwarting the intent of the tax laws? If the answer is "yes," the bonds might have to be redeemed.

It is the intent of Congress to eliminate what is considered unnecessary issuance of tax-exempt debt. Accordingly, the tax laws seek to forbid the use of tax-exempt debt as a *replacement* for funds already on hand for a project. As an example, using tax-exempt bonds while funds are on hand which have been specifically restricted by the donor to be used for construction of a facility would be interpreted by bond counsel as a replacement, and therefore would jeopardize the bond issue. The bonds would have to be redeemed, or in an extreme case, might be considered taxable. The former solution might involve extreme penalties; the latter would surely involve a lawsuit from angry investors.

A few simple precautions can eliminate problems. Writing fundraising brochures in a non-specific way, so as not to elicit any gifts specifically tied to a project, is always advisable. That does not preclude an institution's offer to name the new surgery suite after a benefactor, or the new stadium after the generous alumnus/alumnae. Another solution would be to structure the bond issue to allow early redemption without a penalty. As an example, Worcester Polytechnic Institute recently embarked on a fundraising campaign, using a HEFA financed project as a catalyst. The bond issue featured a three-year put option, which gives the Institute the option to pay off a portion or all of the bonds without penalty, depending on the amount and restrictions of the campaign contributions. ■

HEFA Board Holds Annual Retreat

The fast pace created by the considerable financing volume and HEFA statutory modifications of the past year left little time during monthly Board meetings for members to discuss the myriad of policy and operational issues confronting the Authority. The situation was remedied by a day-long retreat held May 7, 1990 at MIT's Endicott House in Dedham.

Senator Patricia McGovern, Chairman of the Ways and Means Committee, was the lead speaker in the morning session. Senator McGovern spoke of the political and fiscal chal-

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HEFA Financings: January 1990 through June 1990

INDIVIDUAL BOND ISSUES

Institution	Location	Series	Amount	Sale Date	Term	Interest Rate
Carney Hospital	Dorchester	C	$ 41,000,000	05/23/90	24 years, fixed	7.50% - 7.75%
Emerson Hospital	Concord	C	36,500,000	01/11/90	28 years, fixed	8.00%
Simmons College	Boston	B	8,425,000	01/18/90	30 years, fixed	6.00% - 7.50%
Suffolk University	Boston	A	20,000,000	02/22/90	28 years, fixed	6.60% - 8.125%
Milton Hospital	Milton	B	26,110,000	04/12/90	25 years, fixed	6.20% - 7.25%
Deutsches Altenheim, Inc.	West Roxbury	A	7,245,000	04/10/90	41 years, fixed	7.70%
Wentworth Institute of Technology	Boston	A	18,255,000	05/04/90	29 years, fixed	6.20% - 7.40%
South Shore Hospital	South Weymouth	C	14,025,000	05/10/90	27 years, fixed	6.45% - 7.50%
University Hospital	Boston	C	88,195,000	05/18/90	29 years, fixed	6.00% - 7.25%
Wellesley College	Wellesley	D	14,400,000	05/08/90	Variable PARS	
Total			$274,155,000			

Deutsches Altenheim Breaks Ground for New Facility

Groundbreaking ceremonies for an 82-bed expansion of Deutsches Altenheim, Inc., the German Home for the Aged, were held on June 3 at its West Roxbury site. The ceremony commenced an extensive construction project which, in addition to the 37,000 square foot addition, includes significant renovations to existing facilities, development of an adult health care center, and a child day care center. The project will effectively triple Deutsches' resident capacity, providing employment for approximately 109 full-time and part-time employees.

The project is being financed from the proceeds of $7,245,000 revenue bonds issued through HEFA on April 10, 1990. The bonds, rated "AA" by Standard & Poor's, based on an FHA-insured mortgage loan, were underwritten by Smith Barney, Harris Upham & Co. The coupon rate on the bonds was 7.70 percent. The mortgage was provided by Charles River Mortgage Co.

The Home is a private, non-profit nursing home licensed by the Massachusetts Department of Public Health. The Home was formed in 1891 by a group of members of the German Ladies Aid Society of Boston (GLAS of Boston) with the intention of building a home for the aged. The current Board of Trustees are all members of the GLAS of Boston, continuing the tradition of quality care in an attractive environment established by their German ancestors approximately a century ago. ■

George Munchbach, Treasurer; Heinrich W. Brinkhaus, President; Elisabeth von den Benken, Vice President, Deutsches Altenheim, Inc., and HEFA Executive Director Ned Murphy at the Home's groundbreaking ceremony.

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SUMMER 1990 MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY VOL. 3, NO. 3

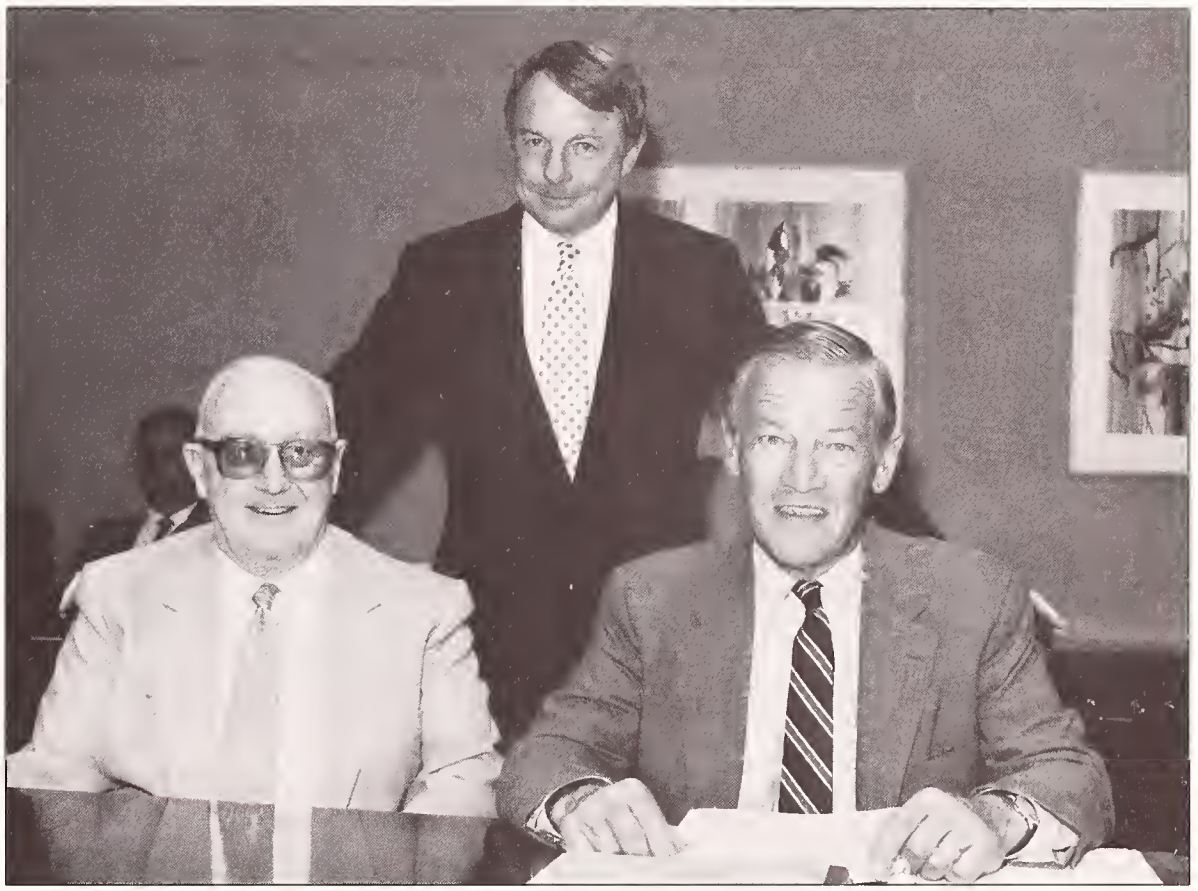
Authority Members Elect Officers

The officers of the Authority were re-elected by a vote of their peers at the July meeting. C. Vincent Vappi was elected to his second term as Chairman of the Board. Robert R. Fanning, Jr. and John R. Smith were re-elected Vice Chairman and Secretary, respectively.

Mr. Vappi is Chairman and Chief Executive Officer of Vappi & Company, Inc., of Cambridge, Massachusetts, general building contractors. Mr. Vappi is a Trustee of the New England Deaconess Hospital, a member of the Corporation of Simmons College, and a Director of The Boston Company, the John Hancock Mutual Life Insurance Company, and the Tech/Ops Companies.

Mr. Fanning is President and Chief Executive Officer of Beverly Hospital and its parent corporation, Northeast Health Systems, Inc. He is a Fellow in the American College of Healthcare Executives, and is the immediate past chairman of the Massachusetts Hospital Association Board of Trustees and a current member of the Executive Committee. He is also an outside Director of Health Care Property Investors, Inc., an equity-oriented real estate investment trust specializing in health care related facilities. Mr. Fanning is also a Director of the Warren Five Cents Savings Bank.

Mr. Smith is Vice President and Treasurer of Boston College. He is a Director of the Massachusetts Higher Education Assistance Corporation, Treasurer of the Massachusetts Educational Financing Authority, a Trustee of the Advest/Advantage Funds and a former Trustee of Boston College High School. Prior to his tenure at Boston College, Mr. Smith was employed by Bendix Corporation and Raytheon Company in executive financial analysis and management positions. He is a Certified Public Accountant. ■



HEFA Board Officers from left: Secretary John Smith, Vice Chairman Robert Fanning, and Chairman Vincent Vappi.

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Hospital/Corporate Leaders Briefed on Health Care Costs

Members of the Authority and a group of financial service firms including Coopers & Lybrand, Goldman Sachs & Co. and Fitch Investors Service, Inc. sponsored a health care briefing on July 19, 1990. The briefing and discussion focused on public perceptions and attitudes with respect to controlling health care costs and financing hospitals in Massachusetts.

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Briefing

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The session, hosted by John P. Hamill, president of Shawmut Bank, and Mitchell T. Rabkin, M.D., president of Beth Israel Hospital, brought board chairmen, chief executives and chief financial officers of the eight university-affiliated, Boston teaching hospitals, the University of Massachusetts Medical Center and several community hospitals together with their business counterparts — corporate chief executives and other business leaders.

The results of a recent statewide public opinion survey report were presented by John W. Gorman, President, Opinion Dynamics Corporation. The survey covered a range of health care delivery and finance topics. Mr. Gorman summed up survey results with the statement, "The bottom line is that 86% of the people surveyed feel every American has a right to health care regardless of ability to pay." Other survey results include:

☐ **Given the many problems the state faces, health care concerns will take a back seat to other issues of public concern unless the crisis worsens.** People care about health care, but they have a full agenda of issues. Doctors and hospitals may have legitimate complaints, but right now they will have to stand in line to be heard.

☐ **Most people feel that in the next few years protecting health care benefits will be more important in labor negotiations than fighting for higher wages.** A recent survey of corporate personnel officers found much the same perception from the other side, setting the stage for more controversy over the issue.

☐ **After saying that they want benefits protected, most people do recognize that the cost of health care is a problem for business and say that they are willing to do what they can to help.** More than they did ten years ago, people recognize the importance of a strong economy to their personal well-being. If they can help their employers and business in general without too much pain, they will help.

☐ **People reject cost-cutting measures that seem to threaten access or quality.** Indeed, even when asked about state-funded care for the poor, most Massachusetts residents reject measures that seem to threaten the care that people get.

☐ **One of the few cost-cutting changes tested, and one which people support, is greater limits on the use of heroic measures to save the very elderly or the terminally ill.**

☐ **People want access to the latest technology.**

☐ **The most popular method of reducing costs is the HMO/managed care path.** More so than people nationwide, residents of Massachusetts accept HMOs or other kinds of managed care as a means of reducing costs. Younger people are more likely than older ones to accept these kinds of programs — perhaps indicating that future growth will be even greater. To the extent these programs can reduce costs, they provide the most politically acceptable method of dealing with the health care cost crisis.

In describing HEFA's interest in convening the session, Executive Director Ned Murphy commented, "Health care policy and finance issues will be explored and debated by hospital and business leaders during the next twelve months as Chapter 23 is re-examined by the Legislature and the future of the Massachusetts health care system takes shape. Understanding public attitudes regarding cost as well as perceptions of the industry are essential components of that discussion." ■

Board Adopts Long-Term Care Policy

Members of the HEFA Board's Policy Committee ended a year's study of the long-term care industry by proposing a policy governing financing for long-term care projects. The policy received unanimous support of the full Board and was formally adopted at the September meeting. The new policy was prompted by new legislative authorization for HEFA to provide financing for nursing homes and an array of long-term care projects.

The policy, as drafted by Policy Committee members Catherine Dunham, Herman Leonard and John Smith, commits the Authority to three policy objectives for long-term care: to facilitate borrowers' access to capital markets; to encourage development of high-quality facilities for the Commonwealth's elderly; and to ensure the nonprofit orientation of developers and management. "Long-term care is the largest growth segment of our nation's health care delivery system," commented Board member Catherine Dunham. "Given the increasing demand, we agreed it was essential that the Board carefully construct a framework for financing which creates incentives to encourage participants' long-term commitment to the industry, ensure the continued success of the Authority's portfolio and establish financing protocols that do not unnecessarily encumber a financing."

The Authority has completed several long-term care financings this past year, and several more are in progress. Information regarding long-term care capital financing and copies of the policy can be obtained by contacting HEFA Deputy Director Lydia Crowson at (617) 737-8377. ■

HEFA Designates Financial Advisors

Members of the Authority completed a year-long review of all HEFA consultant services with the designation of a new financial advisory team. A joint proposal submitted by Public Financial Management, Inc. and KRC Resources, Inc. received unanimous support from the Board at its July meeting. The new team will work closely with Authority staff and borrowers to structure and manage bond transactions.

Public Financial Management, a wholly-owned subsidiary of Marine Midland Bank, Inc., was the top-ranked financial advisory firm in the United States in 1989, having managed 174 transactions with a total par value of over $6.5 billion. PFM currently serves over 200 clients in 28 states. KRC Resources is a wholly-owned subsidiary of Kutak, Rock, and Campbell, a 215-member national law firm with offices in New York, Washington, D.C., and elsewhere across the country. KRC and its law firm serve local, regional and national clients and have participated in more than 3,800 financings in the past ten years which aggregate more than $92 billion. Both firms are well-versed in the Authority's policies and maintain broad-based, national advisory practices. Neither PFM nor KRC engages in investment banking services or sells securities or any other financial product.

Stephanie Gibsan of Public Financial Management and Michael Guord, Executive Vice President from KRC Resaurces, Inc., have been designated finoncial advisors.

Stephanie Gibson, manager of PFM's Boston office, and Michael Guard, Executive Vice President for KRC, will have primary responsibility for service to Authority borrowers. Their combined experience includes 72 completed Authority transactions since 1983 with a cumulative par value of $2.4 billion.

"PFM and KRC have a national practice and a local presence," commented HEFA Executive Director Ned Murphy. "Bringing the resources and sophistication of both firms to bear on each financing will assure borrowing institutions unsurpassed quality in financial structures, flexible indentures, precision timing and aggressive pricing." ■

HEFA Financings: January 1990 through August 1990

INDIVIDUAL BOND ISSUES

Institution	Location	Series	Amount	Sale Date	Term
Emerson Hospital	Concord	C	$36,500,000	01/11/90	28 years, fixed
Simmons College	Boston	B	8,425,000	01/18/90	30 years, fixed
Suffolk University	Boston	A	20,000,000	02/22/90	28 years, fixed
Deutsches Altenheim, Inc.	West Roxbury	A	7,245,000	04/10/90	41 years, fixed
Milton Hospital	Milton	B	26,110,000	04/12/90	25 years, fixed
Wentworth Institute of Technology	Boston	A	18,255,000	05/04/90	29 years, fixed
Wellesley College	Wellesley	D	14,400,000	05/08/90	Variable
South Shore Hospital	South Weymouth	C	14,025,000	05/10/90	27 years, fixed
University Hospital	Boston	C	88,195,000	05/18/90	29 years, fixed
Carney Hospital	Dorchester	C	41,000,000	05/23/90	24 years, fixed
Farren Care Center	Montague City	A	7,500,000	07/02/90	20 years, fixed
Northeastern University	Boston	D	23,845,000	07/12/90	20 years, fixed
WalthamWeston Hospital	Waltham	B	18,000,000	07/13/90	25 years, fixed
St. John's Hospital	Lowell	B	19,345,000	07/26/90	28 years, fixed
Valley Regional Health	Methuen	B	28,000,000	08/16/90	28 years, fixed
Total			**$370,845,000**		

When Seeking Tax-Exempt Financing, Know Your MHC Approval Process

Institutions seeking tax-exempt financings sometimes fail to consider the role of historic preservation guidelines until it is too late. Misunderstanding compliance requirements under the Commonwealth's Historic Commission Act can seriously interfere with a bond sale.

State law requires that a number of key regulatory approvals be in hand prior to the issuance of any tax-exempt bonds. One such approval is that of the Massachusetts Historical Commission (MHC), which, if overlooked, can result in delays and additional legal costs.

The MHC is the state's agency in charge of protecting and preserving the historic and archaeological resources of the Commonwealth. It establishes and maintains the State Register of Historic Places and determines whether *any* proposed projects undertaken by state bodies will have adverse effects on the properties listed in the Register.

MHC should be notified as early as possible in the planning process of any project contemplated for HEFA financing, to preserve the potential for use of tax-exempt financing. The Commission's review will include not only direct impact on properties on the state register of historic places, but also on any property listed as a "historic asset of the Commonwealth." This includes properties *included in* or *eligible for inclusion* in the National Register of Historic Places. This term "eligible" is important — the universe of structures covered by the legislation is not limited to registered historic landmarks. For example, the Commonwealth and many local communities maintain unpublished lists of properties which could be eligible. To determine whether a facility on an institution's campus is on one of these lists, it is essential to work with the MHC and any local historic district commission as soon as a project is contemplated, not merely when the financing process commences. HEFA staff can assist institutional planners in identifying the initial steps in the notification process.

Typically, the review process is initiated by the formal submission of MHC's Project Notification Form or the Executive Office of Environmental Affairs' Environmental Notification Form. These two agencies' reviews are not interchangeable. MHC has, however, streamlined the process, and therefore the waiting period is minimal. MHC must issue written determination of effect within 30 days after receipt of the notification form. If the Commission fails to do so within that time, the project may proceed. Normally, this time table will not delay a financing, and early notification is encouraged.

Should the Commission find that there will be adverse effect on the property, a consultation process begins between MHC, HEFA, and the institution. The Commission invites appropriate local historical commission or local historic district commissions to participate and may invite them to be a consulting party to an agreement.

If the consulting parties can agree on alternatives, a Memorandum of Agreement (MOA) is prepared describing such alternatives, with the institution and the MHC consenting to comply with the measures in the Agreement. State law does not give MHC veto authority over proposed developments or demolitions, but it does direct state bodies to adopt feasible means to avoid damaging historic properties. The Commission has adopted procedures regarding appeals and those governing substantial changes in the project.

continued on page 6

WalthamWeston Simplifies Debt

In March of 1987, WalthamWeston Hospital management completed a strategic plan that was subsequently adopted by its Board of Trustees. The strategic plan called for the enhancement of women's services, psychiatry, substance abuse and the emergency room. With the July 13, 1990 closing of a $18,000,000 revenue bond issue through HEFA, the Hospital has tailored its debt structure to support its new operational priorities and to purchase capital equipment and renovations related to the plan.

The bond issue had a refinancing component, in which WalthamWeston simplified its debt structure by consolidating a diverse array of outstanding debt to a simple term bond structure. The Hospital refinanced the $5.7 million outstanding balance of a tax-exempt bond issue and the $6.2 million outstanding balance of taxable notes. By refinancing the tax-exempt issue, the Hospital achieved two goals: it took out variable rate debt, and it did not have to renew a letter of credit, thus avoiding all the uncertainties associated with maintaining a letter of credit. The Hospital also avoided a bullet maturity in two years by refinancing the taxable note. The refinancing lowered debt service requirements for the next several years.

Fitch Investors Service, Inc. and Moody's Investors Service, Inc. assigned bond ratings of BBB and Baa, respectively, to the WalthamWeston Hospital and Medical Center Series B Bonds. The 2002 term bond was priced to yield 8.30%, and the 2015 maturity to yield 8.495%. ■

HEFA's Ned Murphy and WalthamWestan V.P. Pierre Henry sign closing memarandum far recent $18 millian band financing.

Northeastern University Expands Facilities

Northeastern University recently tapped the tax-exempt market with a highly successful financing, proving that well-run universities can raise low-cost capital even when negative publicity about higher education enrollment is playing prominently in the national press. Northeastern's success was directly attributable to a concise strategic plan, which was aggressively marketed during the financing. Northeastern, the largest private university in the nation, reported a drop in freshman deposits last spring. The University, however, was able to show investors that it had prepared well for the expected decline.

Northeastern University Assistant ta the Treasurer Jaseph Murphy and President Jahn Curry at Nartheastern's canstruction site.

Despite unfavorable demographics and a concurrent downturn in the regional economy, Northeastern saw virtually no resistance in the market. The University closed on its Series D bonds in a par amount of $23,845,000. The financing took only 6 weeks from the kickoff meeting to the July 12th closing. The issue was insured by AMBAC Indemnity Corporation. The interest rate on the serial bonds ranged from 6.00% to 7.10%. The yield on the term bond maturing in 2010 was 7.24%.

Bond proceeds will be used to purchase a building in the Jamaica Plain section of Boston that will be used as a warehouse and a studio facility. Several existing facilities on the University's main campus will undergo major renovations to create additional classrooms, studios, offices and library space. These include the Law School Library, Robert Gray Dodge Library, Churchill Hall, and Ryder Hall. Bond proceeds will also be used to acquire computers and other equipment. ■

Capital Asset Program Loans: January 1990 through August 1990

G-2 CLOSINGS

Institution	Location	Amount	Closing Date	Term
Wing Memorial Hospital Corp.	Palmer	$ 755,000	02/01/90	20 years
Becker Junior College	Worcester	835,000	02/08/90	20 years
The Harbor Schools, Inc.	Newbury	420,000	02/27/90	20 years
George H. and Irene L. Walker Home for Children, Incorporated	Needham	1,900,000	03/05/90	20 years
L.U.K. Crisis Center, Inc.	Fitchburg	120,000	03/28/90	20 years
Casa Esperanza, Inc.	Roxbury	150,000	04/05/90	20 years
Berkshire Extended Care Services, Inc.	Pittsfield	3,655,000	05/02/90	20 years
Waltham Committee, Inc.	Waltham	445,000	05/16/90	20 years
Concord-Assabet Adolescent Services, Inc.	Concord	630,000	07/12/90	20 years
Curry College	Milton	405,000	07/31/90	7 years
Total		**$9,315,000**		

G-1 CLOSING

Institution	Location	Amount	Closing Date	Term
Berklee College of Music	Boston	$3,514,075	08/01/90	8 years

MHC Approval

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An example of a project properly executed with MHC participation is Mt. Holyoke College's recent renovation of, and addition to, a 1920's building for the Language Learning Center in the center of the College's picturesque campus in South Hadley. While the building itself is not a registered historic building, it is eligible for historic status and is within one mile of a registered historic district. For these reasons, planners at the College sought the advice and approval of the MHC during the design process.

As Wayne D. Gass, Mt. Holyoke's Dean of Administration, describes it: "From the College's beginning the Board of Trustees has been very concerned about the development of the campus and has required that buildings conform to a master plan prepared by a landscape architect and be designed in keeping with existing buildings on the campus. Representatives of Massachusetts Historical Commission visited the campus and reviewed with the architect and College officials the design of the Language Learning Center building which included extensive renovations, additions on two sides, and replacement of all windows. The results of these discussions were incorporated into the design which was approved by the Commission." ■

St. John's Taps Market for $19 Million

Saint John's Hospital, Lowell, recently proved that even the most unpredictable turn of events cannot sidetrack a financing if the plans are properly prepared. Just weeks prior to the sale of $19,345,000 revenue bonds for Saint John's Hospital, *The Wall Street Journal* carried a very deflating story on Lowell's economy. The day before the sale, *The New York Times* ran a similar story. Both articles focused on the regional decline of high technology, military contractors and financial services. Under normal circumstances, these events would give pause to a bond marketing effort. Fortunately, however, hospital administrators and the HEFA financing team were confident that sufficient ground work had been laid for a successful financing and decided to move ahead despite the adverse publicity.

In the initial stages of the financing, hospital management was encouraged by the underwriting team and HEFA financial advisors to engage a feasibility consultant, a precaution which ultimately proved valuable. By virtue of the additional disclosure on the hospital's service area, the financial team was able to expand its market penetration beyond the skittish regional institutional investors. The Hospital received ratings of Baa and BBB by Moody's and Standard & Poor's respectively. The serial bonds 1992-2000 sold on July 26 with rates of 7.00% to 8.00%; the 2020 term bonds at 8 3/8%.

Bond proceeds will be used to build a six-level, 205,373-square-foot parking facility containing approximately 590 parking spaces and to expand and renovate the facilities housing the Hospital's ambulatory surgical center. Equipment purchases of approximately $4,670,000 will also be made. ■

Harald Lee, Vice President, Finance, and Sister Marie Layala, President, fram St. Jahn's Haspital jain HEFA Executive Director Ned Murphy at band clasing ceremanies.

Massachusetts Health and Educational
Facilities Authority
99 Summer Street, Suite 1000
Boston, MA 02110

HEFA

MONITOR

FALL 1990 MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY VOL. 3, NO. 4

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HEFA Pilots Four-state Nursing Home Acquisition

The HEFA financing team in conjunction with Berkshire Healthcare Systems (BHS) completed a complicated four-state transaction for a new nonprofit affiliate of BHS. The transaction — a sale of $60.5 million in revenue bonds for the acquisition of eight nursing homes — was finalized on September 26. Berkshire Healthcare Systems' new affiliate, Fairview Extended Care Services, Inc., purchased the nursing homes and in so doing, changed the management from proprietary to non profit, a growing trend in long-term care management in Massachusetts. Fairview will manage the homes formerly owned by Hannover Healthcare, Inc., which are located in Massachusetts, Ohio, Missouri, and Pennsylvania.

HEFA issued $40.5 million of the $60.5 million — the remainder was issued by the following entities: County of Greene, Ohio ($9.3 million); Wilkins (Pennsylvania) Area Industrial Develop-

continued on page 2

Standing (from left): William Sims; Brian Y. Colwell, Vice President, and Benjamin S. Wolfe, Vice President, Goldman, Sachs & Co.; Michael J. Guard, Executive Vice President, KRC Resources, Inc. Sitting (from left): Ann-Ellen Hornidge, Mintz, Levin, Cohn Ferris, Glovsky and Popeo, P.C.; Thomas M. Clarke, Treasurer, and John C. Johnson, President, Berkshire Medical Center; Arlene Fine, Vice President, KRC Resources, Inc.

Disclosure Task Force Makes Recommendations

Last spring, at the annual meeting of the National Council of Health Facilities Financing Authorities, the president of the council appointed a three-member committee to make recommendations on how health financing authorities and hospitals should handle increasingly complex secondary market disclosure issues and respond to the potential increase of federal regulation of the municipal finance industry. The panel, chaired by HEFA Executive Director Ned Murphy, met throughout the summer and fall and has made significant progress toward its goal of ensuring that proposed disclosure guidelines for the primary market for 501(c)(3) bonds issued for nonprofit healthcare organizations are reasonable. The committee participated in discussions of proposed disclosure guidelines with the Municipal Securities Coordinating Committee, including, among others, the American Bankers Association, the National Association of Bond Lawyers, the Government Finance Officers Association, the National Federation of Municipal Analysts and the National Council of State Housing Agencies.

Municipal securities are largely unregulated compared to their corporate counterparts. The move in the industry toward greater regulation along the lines of corporate securities, as enforced by the Securities Exchange Commission,

continued on page 6

UMASS, UMMC Close in HEFA Capital Asset Pool

The Authority's new statutory mandate to provide financing for public institutions for higher education was first used in November with a transaction in the Series E Capital Asset Pool. The University of Massachusetts (Amherst) was the first public university to participate in a HEFA financial transaction. UMASS secured $1.1 million in the Series E pool for acquisition of a computer.

Series E , a variable-rate pool, carried a loan rate of 7 percent when UMASS closed for a five-year term. The debt is not an obligation of the Commonwealth of Massachusetts; rather, it is secured by trust funds of the University.

The University of Massachusetts Medical Center (UMMC) will also tap the capital markets through the Series E Capital Asset Pool in December. UMMC, the Commonwealth's public medical school, anticipates closing on $11 million for a nine-year term. The proceeds will be used to construct an ambulatory care wing for the medical center. The debt will be secured by teaching hospital trust funds and will not be an obligation of The Commonwealth of Massachusetts.

"During this recent period of declining revenues and budget shortfalls, it is extremely helpful to have HEFA financing as an alternative to Commonwealth general obligation debt," stated UMASS President Joseph D. Duffey. "UMASS-Amherst alone serves 25,000 students — it is essential to their educational well-being that the University keep apace with the technological demands of the 1990s." ■

Standing (from left): Stephen Lenhardt, Vice President for Management and Fiscal Affairs, President's Office, University of Massachusetts; Executive Director Ned Murphy; Ann-Ellen Hornidge and Leonard Weiser-Varon of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. Seated (from left): Philip Marquis, Joseph D. Duffey, President, University of Massachusetts.

Nursing Home

continued from page 1

ment Authority ($6.4 million); and the Industrial Development Authority of Boone County, Missouri ($5.6 million). The HEFA team coordinated the efforts of its counterparts in the other three states to effect a simultaneous issuance for Fairview. Complicating the sale and acquisition was the difference in tax laws and regulatory processes among the states involved.

These complications notwithstanding, the decision by Fairview to pursue tax-exempt financing proved cost-effective. The underwriting effort for this public offering was led by Goldman, Sachs & Co. and included Herbert J. Sims & Co., and A. G. Edwards & Sons Inc.

"This nursing home transaction as conceived by Berkshire Healthcare Systems represents the best of the industry and will be used as a model for other transactions nationally," commented HEFA Executive Director Edward M. Murphy. "The nursing home industry seems to be evolving towards more nonprofit ownership. It is in keeping with HEFA's mission to help finance this type of project."

Berkshire Healthcare Systems is currently one of the largest employers in Berkshire County. The purchase of the Hannover homes adds an additional 1,016 employees to the organization through the four sites in Massachusetts (East Longmeadow, Danvers, Peabody and South Yarmouth) as well as the three other states. "This acquisition is part of our overall program to create a corporate structure that will support excellence in clinical care, and promote the highest quality of life for elderly residents in nursing homes managed by Berkshire Healthcare Systems," stated John C. Johnson, President, Berkshire Health Systems, Inc. "Demographic data indicate that the elderly population is growing at rapid rates, BHS is working hard to keep apace with that demand in Western Massachusetts without jeopardizing quality. HEFA did a first-rate job of assisting our expansion by providing access to the credit market."

The Hannover acquisition was the largest long-term care financing completed to date by the Authority. HEFA's statutory mandate was amended in August 1989 to include financing for many types of long-term care organizations. Several nursing home financings have been completed since the statute change and several more are in the pipeline. ■

Stonehill College Issues through Competitive Bid

Stonehill College recently closed a very successful $14 million debt offering, despite the fact that the bond markets were in the midst of pre-election turmoil.

This small, liberal arts college found itself facing a market which, at the time, had growing concerns with any Massachusetts-associated credits. Fortunately, the HEFA financing team had developed a plan which allowed the College considerable flexibility to adjust to changing circumstances. As one of the initial steps in the financing, HEFA advisors assisted Stonehill's administration in preparing for the rating agency presentations. The College's "A" ratings were confirmed by Moody's and Standard & Poor's.

Concurrently, contacts were made with major bond insurers, two of whom responded with very aggressive bids. The College, therefore, had succeeded in executing a "dual track" — whereby bond insurance could be an option if it proved cost-effective. Alternatively, the college could issue on its own credit. Just prior to the sale, the financing team decided — because of unstable market conditions — to allow enough room in the spread for an insurance premium. It proved to be a critical advantage, since every one of the seven bidders chose to utilize it, citing that an unenhanced bond would have yielded rates far in excess of an insured issue.

From left: Edword P. Cosieri, Treosurer, ond Rev. Bartley MocPhoidin, President, Stonehill College; Benjamin S. Wolfe, Vice President, Goldmon, Sochs & Co.

According to Edward Casieri, Stonehill's Treasurer, "We decided early in the process to borrow through a competitive sale because of its advantages and because the market has come to expect it of us after three previous competitive offerings. But these sales can be tricky in unstable markets. Fortunately, the HEFA team maximized our flexibility and that of the bidders', and we had a successful outcome."

Proceeds of the bond issue will finance construction of a new student residence hall and a new dining hall on the College's picturesque North Easton campus. The residence hall will house 128 students and cover approximately 32,000 square feet on two floors. The dining hall is approximately 60,000 square feet in size and on two floors. It will include offices, lounge, meeting rooms, stage, and a convenience store. ■

HEFA Financings: January 1990 through November 1990

INDIVIDUAL BOND ISSUES

Institution	Location	Series	Amount	Sale Date	Term
Emerson Hospital	Concord	C	$36,500,000	01/11/90	28 years, fixed
Simmons College	Boston	B	8,425,000	01/18/90	30 years, fixed
Suffolk University	Boston	A	20,000,000	02/22/90	28 years, fixed
Deutsches Altenheim, Inc.	West Roxbury	A	7,245,000	04/10/90	41 years, fixed
Milton Hospital	Milton	B	26,110,000	04/12/90	25 years, fixed
Wentworth Institute of Technology	Boston	A	18,255,000	05/04/90	29 years, fixed
Wellesley College	Wellesley	D	14,400,000	05/08/90	Variable
South Shore Hospital	South Weymouth	C	14,025,000	05/10/90	27 years, fixed
University Hospital	Boston	C	88,195,000	05/18/90	29 years, fixed
Carney Hospital	Dorchester	C	41,000,000	05/23/90	24 years, fixed
Farren Care Center	Montague City	A	7,500,000	07/02/90	20 years, fixed
Northeastern University	Boston	D	23,845,000	07/12/90	20 years, fixed
WalthamWeston Hospital	Waltham	B	18,000,000	07/13/90	25 years, fixed
St. John's Hospital	Lowell	B	19,345,000	07/26/90	28 years, fixed
Valley Regional Health	Methuen	B	28,000,000	08/16/90	28 years, fixed
Smith College	Northampton	C	16,000,000	09/11/90	9 years, fixed
Fairfield Extended Care Services, Inc.	Pittsfield	A	39,600,000	09/26/90	30 years, fixed
Framingham Union Hospital	Framingham	B	16,150,000	09/24/90	27 years, fixed
Stonehill College	North Easton	D	14,000,000	10/10/90	28 years, fixed
Beverly Hospital	Beverly	E	8,000,000	10/12/90	27 years, fized
Berkshire Consolidated Realty	Pittsfield	A	10,600,000	10/30/90	Variable
Goddard Memorial Hospital	Stoughton	B	29,200,000	11/15/90	25 years, fixed
Total			$504,395,000		

Capital Asset Program The First Six Years: May 1984-July 1990

What has HEFA accomplished?

In just over six years, HEFA's capital asset program has provided over $619 million — 192 loans — to 117 organizations across Massachusetts. This has been accomplished through eight capital asset pools, each structured to meet the varying needs of borrowers. Some pools have had fixed interest rates, some variable; some have been tailored to specific client groups; some have been best suited to short- to medium-term borrowing, while others have provided the ability to borrow for longer terms. Loans have been as small as $105,000 and as large as $38 million; the median loan size has been $1.9 million. Terms have ranged from five to 20 years, with an average of 11 years. The trend has been toward an increase in the length of the loan and — in the past year — a decrease in the median loan size.

Who has HEFA served?

While early pooled financings were used primarily by health care and higher education institutions (with 59 and 33 financings, respectively), the client base has expanded over time to include human service providers (20 financings) and cultural organizations (with 5 financings). As a group, the health care provider has been the largest program participant in both number of loans (53%) and total funds borrowed ($387 million, or 62%). While this group has had the largest average loan size ($3.8 million), this is due in part to a few very large loans of over $10 million.

Higher education organizations have had 31% of both the number of program loans and funds borrowed ($192 million, half that of health care). They have had the highest median loan size, $2.5 million.

Human service providers have substantially increased their program participation. In the latest pool, they comprised 65% of the loans made, while borrowing 34% of the funds. This group has had the smallest average and median loan sizes ($881,000 and $630,000), reflecting their more modest capital needs. They have also tended to have projects requiring longer loan terms.

What has the letter of credit history been?

To date, 44% of the loans and 35% of the total funds provided have had credit enhancement in the form of letters of credit. In all, sixteen banks have provided letters of credit. Sixteen loans (8%) have had alternate credit support in the form of mortgages, pledges, or other guarantees.

What about loan rates?

Although the prime rate is not a factor in determining variable loan rates, they have tracked fairly clearly as a percentage of prim e over the years, averaging 68.2% of prime, depending on the program. The gap has widened recently for the older programs, as non-asset (i.e., cost of issuance) bonds become amortized.

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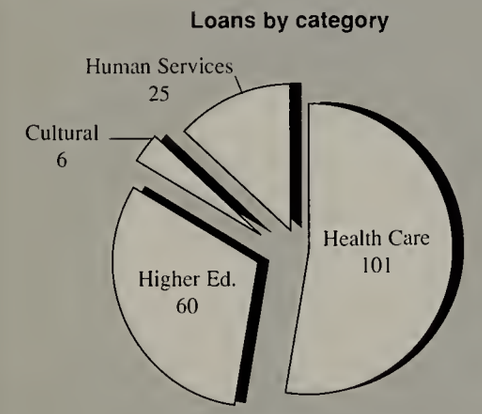
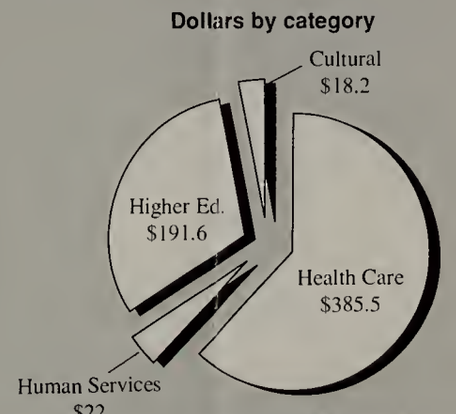
HEFA has provided $617 million through 192 Capital Asset Program loans in six years.





in millions of dollars (6-29-84–7-13-90)

New pool underway

The Authority anticipates closing on a new pool early next year. Series J will be a $100 million, variable-rate pool geared primarily for renovation and construction for research-related projects and operating leases for research equipment and facilities.

Similar to other Authority pools which were designed for a specific type of borrower such as community providers or teaching hospitals, Series J is being tailored to the needs of organizations engaging in medical research. The Series J bonds will be structured as flexible-rate bonds (commercial paper mode) with maturities of no longer than 270 days and a nominal maturity of up to 30 years. Series J bonds will be credit-enhanced with either bond insurance or a bank letter of credit, and in the case of bond insurance, a bank letter of credit will be provided for liquidity. Each loan will be issued as a separate tranche of the Series J Bonds, with the costs of issuance related to that loan to be paid at the time of issuance. Each loan will be governed by a separate agreement between the Authority and the respective borrowing institution. The amortization of each loan or the schedule of lease payment will be determined in accordance with the average remaining life of the assets being financed.

The Series J pool has many other unique and appealing characteristics and promises to be as successful as its predecessors in delivering low-cost capital to eligible institutions. Pool applications are now being accepted. For additional information please contact HEFA's Deputy Director, Lydia Crowson. ■

Capital Asset Program Loans: January 1990 through November 1990

G-2 CLOSINGS

Institution	Location	Amount	Closing Date	Term
Wing Memorial Hospital Corp.	Palmer	$ 755,000	02/01/90	20 years
Becker Junior College of Business Administration and Secretarial Science	Worcester	835,000	02/08/90	20 years
The Harbor Schools, Inc.	Newbury	420,000	02/27/90	20 years
George H. and Irene L. Walker Home for Children, Incorporated	Needham	1,900,000	03/05/90	20 years
L.U.K. Crisis Center, Inc.	Fitchburg	120,000	03/28/90	20 years
Casa Esperanza, Inc.	Roxbury	150,000	04/05/90	20 years
Berkshire Extended Care Services, Inc.	Pittsfield	3,655,000	05/02/90	20 years
Waltham Committee, Inc.	Waltham	445,000	05/16/90	20 years
Concord-Assabet Adolescent Services, Inc.	Concord	630,000	07/12/90	20 years
Curry College	Milton	405,000	07/31/90	7 years
Brockton Hospital	Brockton	4,500,000	11/15/90	20 years
Total		$13,815,000		

G-1 CLOSING

Institution	Location	Amount	Closing Date	Term
Berklee College of Music	Boston	$3,514,075	08/01/90	8 years

E CLOSING

Institution	Location	Amount	Closing Date	Term
University of Massachusetts	Amherst	$1,100,000	11/16/90	5 years

D CLOSING

Institution	Location	Amount	Closing Date	Term
Boston Symphony Orchestra	Boston	$2,500,000	11/20/90	7 years

Goddard Closes on $29.2 Million Bond Issue

Goddard Memorial Hospital closed November 29 on a $29,200,000 bond issue which restructured the Hospital's outstanding bonds while positioning the institution to complete renovations and add new equipment.

The Hospital intends to use part of the bond proceeds to construct and renovate an ambulatory services facility; expand the emergency room and renovate ground-floor areas in the main building; redesign and renovate the obstetrics wing; redesign and resurface parking facilities; replace the management information system; and complete several smaller renovation projects and purchase of various major, movable equipment.

The bonds which were outstanding before the refinancing, the Series A Bonds, were issued by HEFA in 1981, bore interest rates ranging from 10.25% to 11.30%. The Series A Bonds financed construction of the Emergency Department and the North Wing of the Hospital, along with a number of renovations to the Brockton campus.

The Series B bonds are rated Baa and BBB by Moody's and Fitch, respectively. This refunding produced considerable savings in the Hospital's annual debt service payments. ■

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Task Force

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was precipitated by a series of defaults in the municipal housing bond industry. In the wake of those defaults, investors have actively pursued greater disclosure requirements for issuers to satisfy themselves that effective and enforceable standards are in place to forestall similar events in the healthcare industry.

One result of this effort has been adoption of SEC rule 15c-12, requiring delivery of official statements by underwriters for up to 90 days after the initial underwriting period terminates. Also, the Municipal Securities Rule Making Board (MSRB) has proposed establishment of central repositories for dissemination of primary and secondary market information. The National Council approved of the Committee's proposal and fully supported primary market disclosure guidelines. For secondary market disclosure, however, the Council is not inclined to adopt guidelines that would have issuers bear the cost of disseminating information to the markets.

Consensus exists among health care issuers that absent self-policing and reasonable standards, sophisticated investors' fears would translate into greater regulatory oversight, increasing the cost of capital and making access to the market for the healthcare industry more difficult.

"Clearly, some investors would like to impose disclosure requirements for the secondary market along the lines of those imposed on corporate securities by the SEC; however, that is not appropriate in this setting," stated Committee Chairman Ned Murphy. "For example, the SEC requires quarterly financial reports. This seems burdensome for non-profits." "We have to try to find a formula that will satisfy investors without imposing unreasonable expectations on borrowers." ■

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